

NEVADA COUNTY ASSESSMENT PRACTICES SURVEY

JULY 2005

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July 20, 2005

TO COUNTY ASSESSORS:

NEVADA COUNTY
ASSESSMENT PRACTICES SURVEY

No. 2005/046

A copy of the Nevada County Assessment Practices Survey Report is enclosed for your information. The Board of Equalization (BOE) completed this survey in fulfillment of the provisions of sections 15640-15646 of the Government Code. These code sections provide that the BOE shall make surveys in each county and city and county to determine that the practices and procedures used by the county assessor in the valuation of properties are in conformity with all provisions of law.

The Honorable Dale F. Flippin, Nevada County Assessor, was provided a draft of this report and given an opportunity to file a written response to the findings and recommendations contained therein. The report, including the assessor's response, constitutes the final survey report which is distributed to the Governor, the Attorney General, and the State Legislature; and to the Nevada County Board of Supervisors, Grand Jury, and Assessment Appeals Board.

Fieldwork for this survey was performed by the BOE's County Property Tax Division during January and February 2004. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

Mr. Flippin and his staff gave their complete cooperation during the survey. We gratefully acknowledge their patience and courtesy during the interruption of their normal work routine.

These survey reports give government officials in California charged with property tax administration the opportunity to exchange ideas for the mutual benefit of all participants and stakeholders. We encourage you to share with us your questions, comments, and suggestions for improvement.

Sincerely,

/s/ David J. Gau

David J. Gau
Deputy Director
Property and Special Taxes Department

DJG:jm
Enclosure

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INTRODUCTION

Although county government has the primary responsibility for local property tax assessment, the State has both a public policy interest and a financial interest in promoting fair and equitable assessments throughout California. The public policy interest arises from the impact of property taxes on taxpayers and the inherently subjective nature of the assessment process. The financial interest comes from the fact that more than one-half of all property tax revenue is used to fund public schools and the State is required to backfill any shortfalls from that property tax funding.

The assessment practices survey program is one of the State's major efforts to address these interests and to promote uniformity, fairness, equity, and integrity in the property tax assessment process. Under this program, the State Board of Equalization (BOE) periodically reviews the practices and procedures of (surveys) every county assessor's office. This report reflects the BOE's findings in its current survey of the Nevada County Assessor's Office.

The assessor is required to file with the board of supervisors a response that states the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations contained in this report. Copies of the response are to be sent to the Governor, the Attorney General, the BOE, the Senate and Assembly, and the Nevada County Grand Jury, and the Assessment Appeals Board. That response is to be filed within one year of the date the report is issued and annually thereafter until all issues are resolved. The Honorable Dale Flippin, Nevada County Assessor, elected to file his initial response prior to the publication of our survey; it is included in this report following the Appendices.

While typical management audit reports emphasize problem areas, they say little about operations that are performed correctly. Assessment practices survey reports also tend to emphasize problem areas, but they also contain information required by law (see *Scope of Assessment Practices Surveys*) and information that may be useful to other assessors. The latter information is provided in the hope that the report will promote uniform, effective, and efficient assessment practices throughout California.

SCOPE OF ASSESSMENT PRACTICES SURVEYS

Government Code sections 15640 and 15642 define the scope of an assessment practices survey. As directed by those statutes, our survey addresses the adequacy of the procedures and practices employed by the assessor in the valuation of property, the volume of assessing work as measured by property type, and the performance of other duties enjoined upon the assessor. In addition, pursuant to Revenue and Taxation Code¹ section 75.60, the BOE determines through the survey program whether the county assessment roll meets a minimum assessment level for purposes of certifying the eligibility of the county to continue to recover costs associated with administering supplemental assessments. This certification may be accomplished either by conducting an assessment sample or by determining, through objective standards—defined by regulation—that there are no significant assessment problems. The statutory and regulatory requirements pertaining to the assessment practices survey program are detailed in Appendix B.

Our survey of the Nevada County Assessor's Office included reviews of the assessor's records, interviews with the assessor and his staff, and contact with other public agencies in Nevada County that provided information relevant to the property tax assessment program.

Since this survey did not include an assessment sample pursuant to Government Code section 15640(c), our review included an examination to determine whether "significant assessment problems" exist, as defined by rule 371.²

¹ Unless otherwise stated, all statutory references are to the California Revenue and Taxation Code.

² All rule references are to sections of California Code of Regulations, Title 18, Public Revenues.

EXECUTIVE SUMMARY

As stated in the Introduction, this report emphasizes problem areas we found in the operations of the assessor's office. However, it also identifies program elements that we found particularly effective and describes areas of improvement since our last assessment practices survey.

In our 2000 Nevada County Assessment Practices Survey, we made four recommendations to address problems we found in the assessor's assessment policies and procedures. The assessor fully implemented two of the recommended changes and we are repeating the other two recommendations.

We found significant improvements in the assessor's office since our last assessment practices survey. Purchases of information technology, hardware and software, and improvements in procedures have greatly improved productivity and the assessor's interface with other county departments.

The statements below summarize the findings of our current survey:

- Although the Nevada County assessment roll has increased more than 40 percent between fiscal years 1999-00 and 2003-04, staffing levels have remained constant over the same period.
- Administrative elements of the assessor's office, including appraiser certification, exemptions, disaster relief, assessment appeals, and racehorse administrative tax programs conform to statutory requirements.
- The assessor's programs for assessing new construction, declines in value, California Land Conservation Act properties, leasehold improvements, water company properties, and pipeline rights-of-way are consistent with the requirements of property tax law.
- The assessor has effective leased equipment, aircraft, and vessel programs.

We provide recommendations to address the issues summarized below in the current survey:

- The assessor inappropriately includes penalty language on locally-designed forms, inappropriately commingles BOE-prescribed forms that contain the section 463 penalty provisions with non-BOE-prescribed forms that are not subject to the same penalty provisions, uses rearranged forms without obtaining prior BOE approval, and does not include the required heading on the notice of proposed escape assessment.
- The assessor does not notify the auditor-controller when penalties or interest should be added to escape assessments.

- The assessor does not enroll supplemental assessments for all qualifying possessory interests, does not reappraise month-to-month possessory interests at the expiration of the anticipated term of possession, and does not periodically review taxable possessory interests with stated terms of possession for declines in value as required by section 51.
- The assessor's mandatory audit program continues to be in arrears and he accepts incomplete business property statements.
- The assessor uses minimum valuation factors with no supporting evidence.
- The assessor erroneously classifies manufactured homes as real property improvements.

Despite the problems noted above, we found that most properties and property types are assessed correctly. We found no significant assessment problems as defined in rule 371. Since Nevada County was not selected for assessment sampling pursuant to Government Code section 15643(b), this report does not include the assessment ratios that are generated for surveys that include assessment sampling. Accordingly, pursuant to section 75.60, Nevada County continues to be eligible for recovery of costs associated with administering supplemental assessments.

Here is a list of the formal recommendations contained in this report, arrayed in the order that they appear in the text.

RECOMMENDATION 1:	Revise form administrative procedures by: (1) including the penalty language only on appropriate forms; (2) transmitting non-prescribed forms and questionnaires in such a manner that it does not imply that the section 463 penalty applies; (3) using only BOE-approved rearranged forms; and (4) prominently displaying the required heading on the notice of proposed escape assessment.	11
RECOMMENDATION 2:	Notify the auditor-controller when penalties or interest should be added to an escape assessment.	16
RECOMMENDATION 3:	Revise the possessory interest procedures by: (1) supplementally assessing all qualifying possessory interests; (2) reappraising month-to-month possessory interests only at the expiration of the anticipated term of possession; and (3) periodically reviewing all taxable possessory interests with stated terms of possession for declines in value as required by section 51.	28
RECOMMENDATION 4:	Audit the books and records of professions, trades, or businesses pursuant to section 469.	34
RECOMMENDATION 5:	Accept only completed business property statements.	36

- RECOMMENDATION 6:** Use the Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors*, as intended.....38
- RECOMMENDATION 7:** Classify and enroll manufactured homes as personal property. .41

RESULTS OF THE 2000 SURVEY

New Construction

We recommended the assessor request that the County Department of Environmental Health forward copies of all issued permits. The environmental health department's permit information is now transferred daily electronically to the assessor's office. The assessor has implemented this recommendation.

California Land Conservation Act (CLCA)

We recommended the assessor use animal unit months (AUM's) in the analysis of grazing lands. The assessor revised CLCA procedures, developed a more sophisticated program, and now uses AUM's in the analysis of grazing lands.

Audit Program

We recommended the assessor notify the county auditor when interest should be added to escape assessments. The assessor still does not notify the county auditor of applicable section 506 interest and we repeat this recommendation as a roll correction issue.

Business Property Assessment

We recommended the assessor use the Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors*, (AH 581) as intended. The assessor was averaging index factors to develop one valuation factor for business property for each year. Since the BOE has recently adopted averaging in the AH 581, this issue is no longer a problem. However, since the assessor employs unsupported minimum percent good factors for older equipment, we are repeating this recommendation.

OVERVIEW OF NEVADA COUNTY

Nevada County is located approximately 60 miles northwest of Sacramento. It was organized by an act of the State Legislature, approved on May 18, 1851.³ The county has a population of approximately 100,000 inhabitants and encompasses approximately 980 square miles, of which about 17 square miles is water.⁴ Nevada County is bordered on the east by the State of Nevada, on the south by Placer County, on the west by Yuba County, and on the north by Sierra County.

The Nevada County Assessor maintains two offices; the main office is located in Nevada City and a branch office is located in Truckee.

The following table displays information pertinent to the 2003-04 assessment roll:

PROPERTY TYPE		NUMBER OF ASSESSMENTS	ENROLLED VALUE
Secured Roll	Residential	38,690	\$7,226,875,683
	Commercial/Industrial	2,015	848,521,367
	Agricultural	10,158	1,731,865,197
	Manufactured Homes	744	27,727,075
	Other Secured	4,810	417,694,994
	Total Secured	56,417	\$10,252,684,316
Unsecured Roll	Personal Property & Fixtures	5,313	285,305,823
	Total Assessment Roll	61,730	\$10,537,990,139

The next table illustrates the growth in assessed values during the past five years.

ROLL YEAR	TOTAL ROLL VALUE	INCREASE	STATEWIDE INCREASE
2003-04	\$10,537,990,139	9.5%	7.3%
2002-03	\$9,624,899,415	8.3%	7.3%
2001-02	\$8,883,950,123	10.2%	9.4%
2000-01	\$8,059,559,680	8.4%	8.3%
1999-00	\$7,435,581,224		7.1%

³ Author's Note: <http://new.mynevadacounty.com/VisHistory/index.cfm?ccs=893>

⁴ Author's Note: <http://www.dof.ca.gov>, and <http://www.dwf.water.ca.gov>.

ADMINISTRATION

This portion of the survey report focuses on administrative policies and procedures of the assessor's office that affect both the real property and business property assessment programs. We examined the assessor's budget and workload, appraiser certification, the State and County Property Tax Administration Program, assessment forms, exemptions, and disaster relief programs. We also reviewed how the assessor handles corrections and changes to the completed assessment roll, low-value property exemptions, preparation and presentation of assessment appeals, and the racehorse in-lieu tax.

Budget and Staffing

The assessor's staffing levels have remained relatively constant over the last five years, with only slight variations. Current staffing includes 31 full-time employees and one contracted employee compared with 34 in our previous survey. The table below summarizes the assessor's office budget over the last five years:

BUDGET YEAR	GROSS BUDGET	PERCENT CHANGE
2003-04	\$2,101,770	4.8%
2002-03	\$2,004,861	2.9%
2001-02	\$1,948,233	9.0%
2000-01	\$1,786,736	10.5%
1999-00	\$1,616,449	

The staff consists of the assessor; an administrative analyst; a supervising appraiser in charge of the valuation division with a staff of 13; a standards manager in charge of computer support, standards, and mapping, with a staff of 3; and an administrative services associate in charge of all support functions with a staff of 10. In addition, the assessor employs one contract employee, who provides support to the standards division, but does not perform appraisals.

Appraiser Certification

Section 670 provides that no person shall perform the duties of an appraiser for property tax purposes unless he or she holds a valid certificate issued by the BOE. There are a total of 12 certified appraisers on staff, of whom three hold advanced certificates and nine hold permanent appraiser's certificates. We found that the assessor and his staff possess the required certificates. Additionally, we found that the auditor-appraisers performing mandatory audits meet the academic requirements referenced in section 670(d). The assessor does not use contract appraisers.

State-County Property Tax Administration Program

In 1995, the Legislature established the State-County Property Tax Administration Program (PTAP). This program, which was later entitled the State-County Property Tax Administration Loan Program, provided state-funded loans to eligible counties for the improvement of property tax administration.⁵ This program expired June 30, 2001 and was replaced with the Property Tax Administration Grant Program, which is available to counties for fiscal years 2002-03 through 2006-07. The grant program operates in essentially the same manner as the loan program except that if a county fails to meet its contractual performance criteria, the county will not be obligated to repay the grant but will be ineligible to continue to receive a grant.

If an eligible county elected to participate, the county and the State Department of Finance entered into a written contract, as described in section 95.31. A PTAP loan is considered repaid if the county satisfies agreed-on performance criteria set forth in the contract. The contract provides that the county must agree to maintain a base funding and staffing level in the assessor's office equal to the funding and staffing levels for the 1994-95 fiscal year. This requirement prevents a county from using PTAP funds to supplant the assessor's existing funding.

For most counties, the contract provides that verification of performance is provided to the State Department of Finance by the county auditor-controller.

In Resolution No. 03-234, Nevada County authorized the Chair of the Board of Supervisors to execute the agreement between the county and the State Department of Finance pertaining to PTAP. This agreement covers fiscal years 2003-04 through 2006-07. The 1994-95 fiscal year base funding and staffing levels, as determined by the assessor and the Chief Administrative Office of Nevada County, which are deemed to satisfy the requirements for PTAP funding are as follows:

DESCRIPTION	
Gross Appropriation	\$1,384,240
Total Budget Positions	31
Additional Contract Positions	1

The grant amount that the State agreed to make available is \$234,292.

The assessor uses PTAP funds to reduce backlogs of building permits, changes in ownership, supplemental assessments, mandatory audits, assessment appeals, and decline-in-value assessments. Funds have also been used for staffing and new information technology hardware and software, and related staff training. All expenditures are designed to increase the long-term productivity of the assessor's office and other county units that are part of the property tax assessment system.

⁵ Chapter 914, Statutes of 1995, in effect October 16, 1995. The Property Tax Administration Loan Program expired June 30, 2001.

The Nevada County Auditor-Controller has certified to the State Department of Finance that the county met the contractual requirements for the program.

Assessment Forms

Government Code section 15606 requires the BOE to prescribe the use of all forms for the assessment of property for taxation. For the 2003 lien date, the BOE prescribed 78 forms for use by county assessors and one form for use by county assessment appeals boards. Generally, the assessor has the option to change the appearance (size, color, etc.) of a prescribed form but cannot modify, add to, or delete from the specific language on a prescribed form. The assessor may also rearrange information on a form provided that the assessor submits such a form to the BOE for review and approval. Assessors may also use locally-developed forms to assist them in their assessment duties.

The BOE annually sends three forms checklists to assessors for (1) property statements, (2) exemption forms, and (3) miscellaneous forms. Assessors are asked to indicate on the checklists which forms they will use in the succeeding assessment year and to return the checklists to the BOE by October 15 in the case of property statements and miscellaneous forms and by December 1 in the case of exemption forms. By February 10, assessors are also required to submit to the BOE the final prints (versions) of all BOE-prescribed forms they will use in the following year.

A review of the forms used by the Nevada County Assessor's Office for the year 2003-04 revealed the following:

- Of the 78 BOE-prescribed forms, the assessor used 48.
- Of those 48 forms used, the assessor rearranged 7.
- The checklists were received timely.
- The rearranged forms were received timely.
- The final prints of the forms were received timely.
- The assessor uses 51 locally-developed forms and has 36 forms available on his website.

However, we found several issues that need to be addressed.

RECOMMENDATION 1: Revise form administrative procedures by: (1) including the penalty language only on appropriate forms; (2) transmitting non-prescribed forms and questionnaires in such a manner that it does not imply that the section 463 penalty applies; (3) using only BOE-approved rearranged forms; and (4) prominently displaying the required heading on the notice of proposed escape assessment.

Include the penalty language only on appropriate forms.

We found that the locally-developed form, *Statement of Change in Ownership Upon the Death of a Real Property Owner*, includes unauthorized penalty language.

Section 480(c) provides that the BOE shall prescribe the content of the change in ownership statement to be used by all assessors. Pursuant to this section, the BOE has prescribed *Change of Ownership Statement* (Form BOE-502-AH) for requesting necessary information for changes in ownership. Use of this form allows for the assessment of a penalty for nonresponse. The assessor's locally developed form erroneously includes this penalty language, which by law may only be used with BOE-prescribed forms.

Transmit non-prescribed forms and questionnaires in such a manner that it does not imply that the section 463 penalty applies.

The assessor uses two locally-developed forms as supplements to BOE-prescribed forms.

- The *Apiary Owner's Statement* is used as a supplement to the BOE-571-F. The form has the following statement, "This is a supplement report to AH [sic] 571F."
- The *Winery Equipment Classification Supplemental Schedule* is used as a supplement to the BOE-571-L, BOE-571-A, or BOE-571-F.

The accompanying instructions in the cover letter imply that if the forms, both BOE-prescribed and non-prescribed, are not completed, a 10 percent penalty may be applied to the assessment under the provisions of section 463.

The assessor's non-prescribed forms, while an effective tool, are not BOE-prescribed and, therefore, cannot carry section 463 penalty assessments. The assessor has the authority under section 441(d) to request that additional information be made available to him. However, the assessor does not have the authority to apply the section 463 penalty when the taxpayer fails to complete a form that is not BOE-prescribed.

Section 441(d) requires a taxpayer to make available to assessors information or records for examination regarding his or her property. The taxpayer may make the information available by the completion of the assessor's designed forms and questionnaires or by allowing the assessor to inspect his or her records. If the taxpayer fails to make additional information available to the assessor, the assessor may seek remedies provided by sections 462, 468, and 501.

Commingling BOE-prescribed forms with non-prescribed forms gives the impression that if both forms are not completed, the taxpayer will be subject to the section 463 penalty.

Use only BOE-approved rearranged forms.

For the 2003 lien date, the assessor is using two BOE-prescribed forms that have been rearranged but not approved by the BOE. They are BOE-571-L, *Business Property Statement*, and BOE-266-CD, *Claim for Homeowners' Property Tax Exemption (Card)*.

Rule 171(a) requires the assessor to annually notify the BOE, on or before October 15, of the BOE-prescribed property statements and report forms that he will reproduce for use for the succeeding assessment year. This includes any BOE-prescribed forms.

Use of a rearranged BOE-prescribed form that has not been approved by the BOE denies the assessor the legal right to apply the appropriate penalties for non-filing and late filing.

Prominently display the required heading on the notice of proposed escape assessment.

The assessor fails to display the required heading on his notice of proposed escape assessment. The assessor uses a locally-developed form, *Notice of Audit Results Escape Assessment*, as his notice of proposed escape assessment prescribed by section 531.8. Pursuant to section 531.8, this notice must prominently display on its face the following heading: **"NOTICE OF PROPOSED ESCAPE ASSESSMENT."** The notice shall contain all of the following: (1) the amount of the proposed escape assessments for each tax year at issue; and (2) the telephone number of the assessor's office to allow a taxpayer to contact that office with respect to the proposed escape assessment or assessments.

Exemptions

Church and Religious Exemptions

The church exemption is authorized by article XIII, section 3(f), of the California Constitution. This constitutional provision, implemented by section 206 of the Revenue and Taxation Code, exempts buildings, the land on which they are situated, and equipment used exclusively for religious worship, when such property is owned or leased by a church. Property that is reasonably and necessarily required for church parking also is exempt, under article XIII, section 4(d), provided that the property is not used for commercial purposes. The church parking exemption is available for owned or leased property meeting the requirements of section 206.1.

Article XIII, section 4(b), authorizes the Legislature to exempt property used exclusively for religious, hospital, or charitable purposes and owned or held in trust by a corporation or other entity. The corporation or entity, however, must meet the following requirements: (1) it must be organized and operated for those purposes; (2) it must be non-profit; and (3) no part of its net earnings can inure to the benefit of any private shareholder or individual. The Legislature has implemented this constitutional authorization in section 207 of the Revenue and Taxation Code, which exempts property owned by a church and used exclusively for religious worship and school purposes.

County assessors administer the church and religious exemptions. The church exemption and the church parking exemption require an annual filing of the exemption claim. The religious exemption requires a one-time filing by the claimant. Once granted, this exemption remains in effect until terminated or until the property is no longer eligible for the exemption.

Eight church exemption claims and 55 religious exemption claims were processed for the 2003-04 assessment roll. The following table provides religious and church exemption data for the 1990-00 through 2003-04 assessment rolls:

ROLL YEAR	RELIGIOUS		CHURCH	
	Number	Exempt Value	Number	Exempt Value
2003-04	55	\$29,209,618	8	\$1,589,650
2002-03	56	\$28,182,114	11	\$1,613,988
2001-02	59	\$27,528,310	4	\$910,107
2000-01	56	\$23,647,607	5	\$281,063
1999-00	59	\$23,511,079	4	\$2,180,584

In Nevada County, first-time claimants for the religious exemption correctly file Form BOE-267-S *Religious Exemption Claim*. Once established, the assessor annually mails Form BOE-267-SNT, *Religious Exemption Change in Eligibility or Termination Notice*. If a claimant fails to return Form BOE-267-SNT, the assessor contacts the claimant by telephone or in person to re-establish the religious exemption and or adjust the exemption as necessary. We found the assessor's religious exemption program to be well documented and properly administered.

As required by sections 255 and 256, claimants for the church exemption are required to file an annual claim using Form BOE-264-AH. When applicable, the exemption for late filed claims was limited to 85 or 90 percent (\$250 maximum). As with the religious exemption program, we found the assessor's church exemption program to be well documented and properly administered.

Welfare Exemption

The welfare exemption from local property taxation is available for property owned and used exclusively for qualifying religious, hospital, scientific, or charitable purposes by organizations formed and operated exclusively for those purposes. Both the organizational and property use requirements must be met for the exemption to be granted.

The welfare exemption is co-administered by the BOE and county assessors. Effective January 1, 2004, the BOE became responsible for determining whether an organization itself is eligible for the welfare exemption and for issuing *Organizational Clearance Certificates* to qualified nonprofit organizations. And, the assessor became responsible for determining whether the use of a qualifying organization's property is eligible for exemption and for approving or denying exemption claims.

The assessor may not grant a welfare exemption on an organization's property unless the organization holds a valid *Organizational Clearance Certificate* issued by the BOE. The assessor may, however, deny an exemption claim, based on non-qualifying use of the property, notwithstanding the claimant's *Organizational Clearance Certificate* issued by the BOE.

The following table summarizes welfare exemptions granted from the 1998-99 through 2002-03 assessment rolls:

ROLL YEAR	NUMBER OF EXEMPTIONS	EXEMPT VALUE
2002-03	168	\$132,348,752
2001-02	192	\$115,955,594
2000-01	91	\$70,000,000
1999-00	110	\$68,126,388
1998-99	114	\$54,042,259

We reviewed a variety of welfare exemption claims on file at the assessor's office. Some of the specific property types we reviewed included the following:

- Hospitals,
- Reasonably necessary staff housing, including parsonages,
- Land conservation organizations,
- Rental housing for the elderly, and
- Exempt organizations subject to mandatory audit pursuant to section 469.

We found no problems with the assessor's exemption program.

Disaster Relief

Section 170 permits a county board of supervisors to adopt an ordinance that allows immediate property tax relief on qualifying property damaged or destroyed by misfortune or calamity. The property tax relief is available to the owner of any taxable property whose property suffers damage exceeding \$10,000 (without his or her fault) in a misfortune or calamity. In addition, section 170 provides procedures for calculating value reductions and restorations of value for the affected property.

To obtain relief under an ordinance, assesseees must make a written application to the assessor requesting reassessment. However, if the assessor is aware of any property that has suffered damage by misfortune or calamity, the assessor must either provide the last known assessee with an application for reassessment, or the assessor may revalue the property on the lien date following the misfortune or calamity.

Upon receipt of a properly completed application, the assessor shall reassess the property for tax relief purposes. If the sum of the full cash values of the land, improvements, and personal property before the damage or destruction exceeds the sum of the values after the damage by \$10,000 or more, the assessor shall then determine the percentage of value reductions and reduce the assessed values accordingly.

The assessor regularly reviews newspaper articles, building permits issued for repairs, and taxpayer notification, and performs field investigations to discover property eligible for disaster relief. The assessor processes an average of 15 to 20 disaster relief claims a year.

We reviewed several records of properties that had been damaged by fire in addition to the assessor's written disaster relief procedures. We found that the assessor noted the disaster on the records and lowered the assessed values of these properties. The assessor handled each case properly and processed mid-year tax relief for the property owners pursuant to section 170. Furthermore, we noted that the assessor has adopted the changes made pursuant to Chapter 407, Statutes of 2001, amending section 170. The assessor's treatment of misfortune and calamity claims appear to be proper, well administered, and in full compliance with section 170.

Assessment Roll Changes

The assessor must complete the local assessment roll and deliver it to the auditor by July 1 of each year. After delivery of the assessment roll to the auditor, the roll may not be changed except as authorized by statute. All changes to the roll are authorized by specific statutes, and any roll change must be accompanied by the appropriate statutory reference.

Assessment roll changes fall under two general categories: escape assessments and corrections. An escape assessment is an assessment of property that was not assessed or was underassessed, for any reason, on the original roll. A correction is any type of authorized change to an existing assessment except for an underassessment caused by an error or omission of the assessee.

For the 2003 lien date, the assessor completed and timely delivered the local assessment roll to the county auditor.

The following table shows the number of roll changes processed in Nevada County for the last five years:

ROLL YEAR	ROLL CHANGES SECURED	ROLL CHANGES UNSECURED	ROLL CHANGES TOTAL
2002-03	1,274	437	1,711
2001-02	1,444	440	1,884
2000-01	793	316	1,109
1999-00	849	286	1,135
1998-99	862	315	1,177

An appraiser or auditor-appraiser initiates the roll change and forwards the change to a supervisor for review and approval. The appraisal support staff key in the data and the computer system generates a notification letter for the taxpayer. We found that roll corrections are made within the authorized period of time. However, we did note some areas where the assessor's procedures for roll corrections do not meet statutory requirements.

RECOMMENDATION 2: Notify the auditor-controller when penalties or interest should be added to an escape assessment.

Certain types of escape assessments are subject to mandatory interest pursuant to section 506. We found that the assessor fails to notify the auditor-controller to add mandatory interest pursuant to section 506 when processing escape assessments. Escape assessments requiring the addition of interest are:

- sections 531 and 441, failure to file a required property statement;
- section 531.1, incorrectly allowed exemptions;
- section 531.3, failure to report the cost of personal property where the assessor has required a statement;
- section 531.4, inaccurate reporting on the property statement;
- section 531.5, incorrectly allowed business inventory exemption; and
- section 531.6, incorrectly granted homeowners' property tax exemption.

Section 531.6 further provides that if the homeowners' exemption is incorrectly allowed because the claimant failed to notify the assessor that the property was no longer eligible for the exemption, the penalty provided in section 504 shall be added to the assessment. Moreover, section 506 also requires that the county add interest charges to the amount of escaped taxes.

The assessor's failure to notify the auditor-controller to add mandatory penalty and interest results in incorrect assessments and lost tax revenue.

Low-Value Property Exemption

Section 155.20 authorizes a county board of supervisors to exempt all real property with a base year value, and personal property with a full value, so low that the total taxes, special assessments, and applicable subventions on the property would be less than the assessment and collection costs if the property were not exempt.

Section 155.20(b)(1) provides that a county board of supervisors may not exempt property with a total base year value or full value of more than \$5,000, or more than \$50,000 in the case of certain possessory interests. A board of supervisors must adopt a low-value property exemption before the lien date for the fiscal year to which the exemption is to apply. At the option of the board of supervisors, the exemption may continue in effect for succeeding fiscal years.

Nevada County passed Resolution No. 97540 in December 1997, exempting all unsecured property with a full value of \$5,000 or less, all mobilehome accessories installed or added to a mobilehome, purchased prior to July 1, 1980, with a full value of \$5,000 or less, and all possessory interests for a temporary and transitory use in a publicly owned fairground facility, convention facility or cultural facility with a full value of \$15,000 or less. The resolution was effective January 1, 1998, for the 1998-99 fiscal year and for succeeding fiscal years until revised or rescinded.

We obtained a list of low-valued properties and reviewed several properties and cross-checked them with the tax collector's records. No tax bills were issued for these properties. Each property reviewed had been valued, enrolled, and properly exempted. However, the assessor exempts low-value possessory interests from supplemental assessments without authorization from section 75.55(b). See our recommendation in the supplemental assessment section of this report.

Assessment Appeals

The assessment appeals function is prescribed by article XIII, section 16 of the California Constitution. Sections 1601 through 1641.2 are the statutory provisions governing the conduct and procedures of assessment appeals boards and the manner of their creation. As authorized by Government Code section 15606, the BOE has adopted rules 301 through 326 to regulate the assessment appeal process.

The Nevada County Appeals Board consists of three regular members and one alternate. The board of supervisors nominate and appoint the appeals board members. The term of each regular member is three years, arranged in a manner that the term of each member expires in a different year. The term for the alternate is one year.

The clerk of the board of supervisors also functions as the appeals board clerk and schedules assessment appeals board hearings. Hearings are scheduled for the third Monday of every month.

Applications received by the clerk for the assessment appeals board are reviewed, validated, and entered into the system with a copy forwarded to the assessor. An assessment clerk logs the application and sends two copies to the supervising appraiser. The supervising appraiser reviews the application and assigns it to an appraiser, depending on the location of the property and the type of property involved. The appraiser then contacts the applicant to discuss the appeal. Within 15 days of the property owner's contact or within 30 days of being assigned the appeal, the appraiser must make a recommendation to the supervising appraiser.

If it is discovered that an error has been made by the assessor or the assessee that can be corrected by the roll correction process, the assessor processes the roll correction. If it is decided that a stipulation should be made, the appraiser, upon approval of the supervising appraiser, contacts the applicant. If acceptable to the applicant, the appraiser mails the stipulation to the applicant within 10 business days.

If it is decided that the value will be defended, the appraiser informs the applicant, mails the applicant an *Appeal Information Letter*, and prepares the appeal presentation.

At the hearing, the appraiser who prepared the appeal presentation makes the presentation to the appeals board. The supervising appraiser who is present at all assessment appeal hearings is responsible for responding to questions on items such as office policy and property tax laws and rules.

The following table illustrates the number of appeals filed, withdrawn, value stipulated to, and board decisions for the last five years:

APPEALS	FISCAL YEAR				
	2003-04	2002-03	2001-02	2000-01	1999-00
Total Appeals Workload	64	62	89	105	117
Resolution					
Open	46	2	0	0	0
Withdrawn	4	49	57	79	85
Stipulation	0	0	3	3	3
Reduced	0	1	1	4	5
Upheld	1	0	25	16	14
Increased	0	0	0	0	0
Other Determination	13	10	3	3	10

As evidenced by the high number of withdrawn applications, the assessor is diligent in his efforts to communicate with and explain his appraisal to the applicant.

We found the number of appeals filed has been declining over the past five years and has now leveled off. No appeal in the last five years went unresolved for more than two years, unless the taxpayer agreed to a waiver of the statutory time limits.

From the years 1999-00 to 2002-03, about 37 percent of the appeals represented residential property, 12 percent personal property, 37 percent commercial and industrial property, and 14 percent miscellaneous property types.

We reviewed a sampling of appeals and found them to be clear and well documented. Overall, the assessor's assessment appeal program is well administered. Staff handling appeals are experienced and well prepared. We found no problems with the assessor's assessment appeals program.

Racehorse Administrative Tax

Racehorses domiciled in California are subject to an annual tax in-lieu of ad valorem property tax. Sections 5701 through 5790 outline the provisions of this tax. Specific procedures and forms are prescribed by rules 1045 and 1046. Rule 1045(a)(2) requires the assessor to furnish BOE-prescribed forms to racehorse owners for reporting the in-lieu tax.

The assessor annually sends racehorse tax return forms to prior year owners. In addition, he sends appropriate tax report forms to horse boarding facilities reporting domicile changes. For the 2003-04 roll, there were 26 racehorse tax returns filed. The assessor and tax collector exchange returns, providing effective control. Reviews of racehorse tax returns indicated no returns exceeded the threshold for mandatory audit. We found that the assessor effectively administers the annual racehorse in-lieu tax.

ASSESSMENT OF REAL PROPERTY

An assessor's program for assessing real property includes the following elements:

- Revaluation of properties that have changed ownership.
- Valuation of new construction.
- Annual review of properties that have experienced declines in value.
- Annual revaluations of certain properties subject to special assessment procedures, such as land subject to California Land Conservation Act (CLCA) contracts and taxable government-owned land.

Unless there is a change in ownership or new construction, article XIII A of the California Constitution provides that the taxable value of real property shall not exceed its 1975 full cash value factored at no more than 2 percent per year for inflation.

Change in Ownership

Section 60 defines change in ownership as a transfer of a present interest in real property, including the beneficial use thereof, the value of which is substantially equal to the value of the fee simple interest. Sections 61 through 69.5 further clarify what is considered a change in ownership and what is excluded from change in ownership for property tax purposes. Section 110.1 requires the assessor to establish a base year value for real property upon a change in ownership, based on the property's fair market value on the date of change in ownership.

Document Processing

The assessor's primary means of discovering properties that have changed ownership is a review of deeds and other documents recorded at the county recorder's office. The recorder scans and images deeds and other recorded documents that transfer ownership and sends them electronically to the assessor, daily. Nevada County does not have an ordinance requiring deeds to be identified by assessor's parcel number (APN), but the recorder requires it.

The following table shows the workload statistics of the assessor's document processing section:

ROLL YEAR	RELEVANT DOCUMENTS	TRANSFER DOCUMENTS	REAPPRAISABLE TRANSFER DOCUMENTS
2003-04	22,273	12,982	4,759
2002-03	18,984	11,803	4,656
2001-02	16,052	11,754	3,666
2000-01	16,170	12,395	5,065

We reviewed several transfers and found them to be well documented. We found that the assessor has an effective deed processing program to aid his discovery of changes in ownership.

We also found that *Preliminary Change of Ownership Reports* (PCOR's) and *Change of Ownership Statements* (COS's) are effectively tracked and penalties, if any, are applied as required by sections 482 and 483.

Section 408.1 Transfer List

Section 408.1 requires the assessor to maintain, and make available for public inspection, a list of property transfers for the most recent two-year period. The transfers on this list are described by assessor's parcel number, recording date, document number, and selling price as calculated from the documentary transfer tax. The recorded deed is the source document for all data presented on this list. The confidentiality provisions of section 481 are observed.

Legal Entity Ownership Program (LEOP)

Section 64 provides that certain transfers of ownership interests in a legal entity constitute a change in ownership of all real property owned by the entity and its subsidiaries. Rule 462.180 interprets and clarifies section 64, providing examples of transactions that either do or do not constitute a change in entity control and hence either do or do not constitute a corresponding change in ownership of the real property owned by the entity. Discovery of these types of changes in ownership is difficult for assessors because ordinarily there is no recorded notice of the real property transfer.

To help assessors, the BOE's LEOP unit investigates and verifies changes in entity control and legal ownership reported by legal entities, transmitting to each county a listing, with corresponding property schedules, of legal entities that have reported a change in control under section 64(c) or change in ownership under section 64(d). However, many of the acquiring entities do not provide specific information about the real property involved—for example, the county of location, the assessor's parcel number, etc. Because of the limited data provided by many entities, LEOP advises assessors to independently research each entity's property holdings to determine whether all affected parcels have been identified and properly reappraised.

Between January 1996 and January 1, 2002, the BOE notified the assessor of six changes in control involving eight properties. We reviewed all the transfers and found that the assessor has properly reviewed the transfers and reappraised the properties when appropriate.

Section 63.1 Change in Ownership Exclusion & Section 69.5 Base Year Value Transfer

Section 63.1 excludes from the definition of "change in ownership" the purchase or transfer, on or after November 6, 1986, of the principal residence and the first one million dollars of other real property between parents and children when a claim is timely filed. The voters subsequently modified the exclusion's definition to include qualifying purchases or transfers between grandparents and their grandchild or grandchildren.

Section 69.5 allows qualified homeowners 55 years of age or older, or qualified homeowners who are severely and permanently disabled, to transfer the base year value of their present principal residence to a replacement dwelling purchased or newly constructed within the same county on or after November 5, 1986, provided a claim is timely filed. Such claims must be filed within three years of the purchase or completion of the new construction of the replacement dwelling. Section 69.5 was subsequently amended to allow counties to adopt ordinances to expand its benefits to include intercounty transfers.

The following table represents the most recent four years of filings for sections 63.1 and 69.5 properties:

ROLL YEAR	SECTION 63.1	SECTION 69.5
2003-04	537	103
2002-03	697	99
2001-02	491	88
2000-01	482	81

We reviewed several claims and found that the assessor's staff is effectively verifying eligibility, tracking, and processing sections 63.1 and 69.5 claims.

New Construction

Section 70 defines newly constructed property, or new construction, as (1) any addition to real property since the last lien date; or (2) any alteration of land or improvements since the last lien date that constitutes a major rehabilitation of the property or converts the property to a different use. Further, section 70 establishes that any rehabilitation, renovation, or modernization that converts an improvement to the substantial equivalent of a new improvement, constitutes a major rehabilitation of the improvement. Section 71 requires the assessor to determine the full cash value of newly constructed real property on each lien date while construction is in progress and on its date of completion, and provides that the full cash value of completed new construction becomes the new base year value of the newly constructed property.

Rules 463 and 463.5 clarify the statutory provisions of sections 70 and 71, and Assessors' Handbook Section 502, *Advanced Appraisal*, Chapter 6, provides guidance for the assessment of new construction.

There are several statutory exclusions from what constitutes new construction; sections 73 through 74.6 address these exclusions.

Discovery

Most new construction activity is discovered from building permits. Currently, the assessor receives permits from three permit issuing agencies: the county building department and the cities of Grass Valley and Truckee. Permits for wells and septic systems filed with the Department of Environmental Health are issued by the county building department. Discovery methods include field inspections, reviewing newspaper articles, and business property statements.

Permit Processing

The permits from the county building department are received electronically on a daily basis. Hard copies of permits are received from the City of Grass Valley by mail every other week and permits from the City of Truckee are delivered to the Truckee branch office.

Once the permits are received in the assessor's office and encoded into the system, a permit clerk screens the permits electronically and deletes those with non-assessable construction. The remaining permits are held until construction is finalized. When finals are received, they are batched with a computer-generated front sheet and property file, and forwarded to the assigned appraiser for review and valuation. After the valuation, the values are keyed into the system and the supplemental notice is generated. The following table shows the permit workload of the assessor for the past four fiscal years:

FISCAL YEAR	PERMITS RECEIVED	PERMITS GENERATING VALUE
2002-03	3,790	2,143
2001-02	4,705	2,037
2000-01	5,747	2,169
1999-00	5,756	2,134

We found that the assessor's processing procedures are thorough and provide for effective retrieval of information upon which an appraiser may make informed decisions.

In our prior survey, we recommended that the assessor request that the department of environmental health forward copies of all issued permits. The Nevada County Building and Planning Department and the Environmental Health Department have been combined into the Community Development Agency (CDA). The applications for well and septic permits are filed with the Department of Environmental Health. However, the permits are issued by the county building department and are included with the permits that are electronically forwarded to the county assessor. Therefore, this recommendation has been fully implemented.

Valuation

The assessor values new construction by estimating the full value of new construction as of the date of completion. Several cost sources are used in valuing new construction, including Assessors' Handbook Section 531, *Residential Building Costs*, the owner's actual cost, and the *Marshall Valuation Service* for commercial and industrial properties. The Truckee office also uses locally developed costs because of the high cost of construction in the Lake Tahoe region.

Section 71 requires the assessor to enroll construction in progress at its fair market value on the lien date. On subsequent lien dates, if the new construction is still incomplete, the assessor must again enroll the construction in progress at its fair market value. This process continues until the new construction is complete, at which time the new construction is assessed at its fair market value and a base year value is assigned. We found no problems in the valuation of construction in process.

We reviewed several new construction appraisal records and found the appraisal files to be well documented. The assessor's program for assessing new construction complies with all statutory requirements.

Supplemental Assessments

Sections 75 and following require the assessor to appraise property at its full cash value upon change in ownership or completion of new construction and to issue a supplemental assessment based upon the change in ownership or new construction. A supplemental assessment is an assessment that reflects the increase or decrease in assessed value resulting from a change in ownership or completion of new construction for the fiscal year. If a change in ownership or completed new construction occurs between January 1 and June 30, two supplemental assessments result from the same event: one for the remainder of the current fiscal year, another for the entire next fiscal year. Clarification regarding supplemental assessments resulting from the completion of new construction is contained in rule 463.500.

The assessor issues supplemental assessments whenever there is a change in ownership or completion of new construction. The supplemental assessments are generated by computer and are electronically forwarded to the auditor-controller for issuance of the tax bills. The total supplemental assessment process, from reappraisal event date to supplemental billing, takes approximately four to six months.

The following table shows the supplemental assessment statistics for the last three fiscal years:

FISCAL YEAR	SUPPLEMENTAL NOTICES MAILED	SUPPLEMENTAL ASSESSMENTS BILLED
2002-03	8,887	7,851
2001-02	8,779	6,963
2000-01	10,202	5,904

It is the assessor's policy to issue supplemental assessment notices to all property owners. However, the county auditor will cancel small supplemental tax bills that are \$20 dollars or less.

We found the assessor's supplemental assessment program to be current and reflect accurate value calculations. However, there is one issue that needs to be addressed. It is addressed in the possessory interest section of the report.

Declines in Value

Section 51 requires the assessor to enroll on the lien date an assessment that is the lesser of a property's factored base year value (FBYV) or its current full cash value, as defined in section 110. Thus, if a property's full cash value falls below its factored base year value on any given lien date, the assessor must enroll that lower value. If, on a subsequent lien date, a property's full cash value rises above its factored base year value, then the assessor must enroll the factored base year value. (Assessors' Handbook Section 501, *Basic Appraisal*, January 2002, p. 140.)

Discovery of value declines in commercial, industrial, residential, and agricultural properties is accomplished through several means. The most common method used by the assessor is by the appraiser's familiarity with their assigned geographic areas and specialties. The appraisers are expected to be familiar with value trends within their areas of responsibility. In addition, taxpayer requests for review and assessment appeals trigger reviews for value declines. When such activity occurs, the assessor reviews the property in question and also other properties with similar circumstances.

All properties experiencing declines in value are tracked and coded in the computer system so that the annual inflation factor will not be applied.

Due to a strong local real estate market, the number of properties experiencing a decline in value below their FBV has dropped significantly. The following table shows the decline-in-value assessment statistics for the most recent five years:

ROLL YEAR	DECLINE IN VALUE ASSESSMENTS
2003-04	428
2002-03	753
2001-02	1,920
2000-01	2,251
1999-00	5,099

We reviewed several decline-in-value assessments and found them to be well documented, complete, and reasonable. In general, we found that the assessor has an effective and thorough program of annually reviewing and adjusting real property assessments to reflect declines in value. We found one area that requires attention, which is addressed in the possessory interest section of this report.

California Land Conservation Act Property

Pursuant to the California Land Conservation Act (CLCA) of 1965, agricultural preserves may be established by a city or county for the purpose of identifying areas within which the city or county will enter into agricultural preserve contracts with property owners.

Property owners who place their lands under contract agree to restrict the use of such lands to agriculture and other compatible uses; in exchange, the lands are assessed at a restricted value. Lands under contract are valued for property tax purposes by a method that is based upon agricultural income-producing ability (including income derived from compatible uses, e.g., hunting rights and communications facilities). Although such lands must be assessed at the lesser of restricted value, current market value, or factored base year value, the restricted value typically is the lowest.

Sections 421 through 430.5 prescribe the method of assessment for land subject to agricultural preserve contracts. Assessors' Handbook Section 521, *Assessment of Agricultural and Open-Space Properties* (AH 521), provides BOE-approved guidance for the appraisal of these properties.

For the 2003-04 assessment roll, Nevada County had 3,621 acres (53 parcels) encumbered by 15 CLCA contracts with a total assessed land value of \$3,405,477. This represents approximately .033 percent of the secured roll value. The county also has conservation easements, consisting of 4 contracts encumbering 21 parcels (1,953 acres), with a total 2003-04 assessed value (land and improvements) of \$1,303,656. In our prior survey report, for the 1997 roll, Nevada County had nine parcels in nonrenewal status. Currently, there are no CLCA parcels in nonrenewal status.

The responsibility for valuing CLCA properties is split geographically between two real property appraisers; one in the Nevada City office and one in the Truckee branch office. The CLCA program is completely automated. The variable items inputted are the capitalization rate and income. The computer program calculates the restricted values and compares the restricted values with the factored base year value to determine the taxable value. Most of the rural property in Nevada County consists of grazing, irrigated, and dry farmlands.

Homesites

Section 428 provides that the restricted valuation standard for CLCA land does not apply to residences or the site for a residence. AH 521 provides that "even though it might be highly unlikely (or impossible where local zoning regulations forbid the separate parcelization and/or sale of a homesite on an agricultural property) for the homesite to actually be bought and sold in the marketplace, the homesite must be valued as though it were a separate appraisal unit and treated in that manner." In other words, the homesite must be valued at the lower of its factored base year value or the fair market value of a comparable homesite. The assessor's policy and practice complies with section 428 and AH 521.

Valuation of CLCA Property

When valuing CLCA property, section 423(a)(1) requires the assessor to use the income approach with a mandated capitalization rate. The assessor estimates income and expenses for CLCA properties based on information from the following sources: the Agricultural Crop & Livestock Reports from Nevada County, the Nevada County Farm Advisor, and farmers that are knowledgeable in the industry.

The assessor has implemented our prior recommendation to use the animal unit month valuation approach (AUM's) in the valuation of grazing lands.

Timberland Production Zone Property

Land zoned Timberland Production Zone (TPZ) is assessed in accordance with special TPZ site classifications that exclude the value of the standing timber. The assessed value of TPZ land each year must be its appropriate site value plus the current market value of any existing, compatible, nonexclusive uses of land. The special assessment limitations do not apply to structures, TPZ lands or to reasonable site values for such structures. In other words, structures and supporting lands are subject to the same assessment guidelines as other real property. Land zoned as TPZ that is not under a California Land Conservation Act contract is assessed at the lowest of its appropriate site value, current market value, or factored base year value.

Nevada County has 297 TPZ parcels, of which three are in nonrenewal status, comprising 60,969 acres with a 2003 assessed value of \$8,819,295. The total TPZ assessment represents only 0.087 percent of the 2003-04 assessment roll. All TPZ parcels are in the Pine-Mixed Conifer Region. The appraisal of TPZ properties is handled by one real property appraiser at the assessor's branch office in Truckee.

We reviewed several property records of TPZ parcels in Nevada County. We found the assessor is using the proper site class values for timberland and is correctly including any known exclusive compatible uses in the assessment. Those properties not subject to the TPZ restrictions are assessed according to article XIII A of the California Constitution.

The records we reviewed contained pertinent information and showed that residences and other structures had been properly valued. The assessor has correctly valued land zoned as TPZ according to the BOE-prescribed values for the 2003-04 assessment roll.

Taxable Possessory Interests

A taxable possessory interest (PI) results from the possession, or a right to possession, of publicly owned real property, where the possession provides a private benefit to the possessor and is independent, durable, and exclusive of rights held by others. The assessment of a taxable possessory interest is based on the value of the rights actually held by the possessor; the rights retained by the public owner are not taxable.

The assessor is responsible for identifying the existence of taxable possessory interests in the county and valuing those PI's upon a change in ownership or the construction of new improvements on the property.

The Nevada County Assessor's program for discovering possessory interests includes an annual polling of all government entities in the county requesting information on agreements with private parties. Staff appraisers annually contact approximately 24 public agencies by letter or in person to request current information on new or changed tenancies or rents. There are currently 442 taxable possessory interests assessed in Nevada County with a total value exceeding \$28 million.

Possessory interests are assessed on the unsecured roll and are the responsibility of one senior appraiser. The total enrollment of all PI properties represents approximately 0.27 percent of the 2003-04 assessment roll. The Nevada County's Board of Supervisors adopted a low value resolution, exempting possessory interest at the fairgrounds with a full value of fifteen thousand dollars (\$15,000) or less.

There are several issues that need to be addressed.

RECOMMENDATION 3: Revise the possessory interest procedures by:
(1) supplementally assessing all qualifying possessory interests; (2) reappraising month-to-month possessory interests only at the expiration of the anticipated term of possession; and (3) periodically reviewing all taxable possessory interests with stated terms of possession for declines in value as required by section 51.

Supplementally assess all qualifying possessory interests.

We found that the assessor does not enroll supplemental assessments for possessory interests assessed on the unsecured roll. Possessory interest transfers and new construction activity during the year are valued annually for the following lien date.

Section 61(b) provides that the creation, renewal, extension, or assignment of a taxable possessory interest is a change in ownership. Section 75.5(b) excludes newly created taxable possessory interests, established by month-to-month agreement in publicly owned real property, having a full cash value of fifty thousand dollars (\$50,000) or less from supplemental assessments. Section 75.11 provides that supplemental assessments, other than those excluded by section 75.5(b), shall be issued following a change in ownership or new construction.

Section 75.55(b) allows a county board of supervisors to adopt an ordinance authorizing the assessor to cancel supplemental assessments that would result in a tax liability less than the cost of assessing and collecting the taxes. However, under no circumstances does this section allow any supplemental assessment to be canceled if the resulting taxes exceed \$50. At the time of our survey, the Nevada County Board of Supervisors had not adopted such an ordinance. Therefore, the assessor is required to enroll supplemental assessments for all possessory interests, except those excluded by section 75.5(b).

Reappraise month-to-month possessory interests only at the expiration of the anticipated term of possession.

The assessor values month-to-month possessory interests using an anticipated term of possession of 3 to 10 years; however, he does not reappraise these interests at the end of the term of possession. Instead, the value continues to be factored until a review is conducted to update values.

Section 61(b)(2) provides that the renewal or extension of a taxable possessory interest during the reasonably anticipated term of possession used to value the interest by the assessor does not result in a change in ownership until the end of that reasonably anticipated term of possession. Thus, for example, if a taxable possessory interest is originally valued using a reasonably anticipated term of possession of five years, that interest, even though renewed monthly under a month-to-month tenancy, should not be reappraised until the expiration of the five-year term used to value the interest, assuming there is no change in tenants. At the end of the term, that interest is reappraised. The assessor's practice is contrary to statutory provisions.

Periodically review all taxable possessory interests based on the stated term of possession as required by section 51.

We found that, for lien dates subsequent to the initial base year the assessor does not determine the market value of a possessory interest with a stated term of possession. Instead he enrolls the factored base year value until the contract term of possession expires or there is a change in ownership.

Section 51 requires the assessor to assess a possessory interest at the lesser of its base year value (adjusted annually for inflation by no more than 2 percent) or its current fair market value, taking into consideration any reductions in value due to damage, depreciation, or any other factors causing a decline in value. In determining the current fair market value of a possessory interest with a stated term of possession, rule 21 provides that the stated term of possession is presumed to be the reasonably anticipated term of possession unless there is clear and convincing evidence that the lessor and lessee anticipate a different term. Rule 21 also provides that the "stated term of possession" for a taxable possessory interest is the remaining period of possession, which may have a material effect on the current fair market value of the interest.

For this reason, the assessor must estimate the market value of a possessory interest as of the lien date (based on the stated term of possession), compare this value with the factored base year value, and enroll the lower of the two values. Though not required to reappraise all properties each year, the assessor should periodically review the assessments of possessory interests with a stated term of possession to ensure that declines in value of possessory interests are consistently recognized.

Failure to assess a possessory interest using the stated term of possession may overstate its taxable value.

Leasehold Improvements

Leasehold improvements are all improvements or additions to leased property that have been made by the tenant or lessee (Assessors' Handbook Section 504, *Assessment of Personal Property and Fixtures*, November 2002, p. 92). Such improvements can be secured to the real property or assessed to the lessee on the unsecured assessment roll.

Commercial, industrial, and other types of income-producing properties require regular monitoring by the assessor because, as tenants change over a period of time, they may add and remove improvements that may result in a changed use of the property. These changes must, by law, be reflected in the property's assessment if they qualify as new construction.

When real property is reported on the *Business Property Statement* (BPS), coordination between the real property and business property divisions of the assessor's office is important. The reported cost should be examined by both an appraiser in the real property division and an auditor-appraiser in the business property division. The divisions should determine the proper classification of the property to ensure appropriate assessment by each division and avoid escapes and double assessments. The assessor must determine whether costs are for repair and maintenance and are, therefore, not assessable, whether additions are properly classified as structural improvements or fixtures, and/or if additions are properly enrolled. Additionally, both divisions must agree on which items will be assessed by which division; otherwise escapes and/or double assessments may result.

We found that the assessor properly classifies reported structural improvements and fixtures on the unsecured roll. In addition, there is good communication between the real property and the business property staff. The business property staff forward relevant portions of the business property statement to the real property staff, and the real property staff inform business property staff of possible tenant improvements.

Water Company Property

Taxable water company property may include the property of private water companies, mutual water companies, and some property of government-owned water systems. Each type of water company property presents different assessment issues.

Municipal Water Systems

Article XIII, section 3(b) of the Constitution of California exempts from taxation property owned by a local government and located within its boundaries. This includes both property owned by city water departments and located within city limits, and property owned by water districts located within district boundaries. When the water system is located outside of the government agency's boundaries, this exemption does not apply. Article XIII, section 11 of the California Constitution provides that publicly owned property (including a water system) located outside its boundaries is taxable if it was taxable at the time it was acquired by the district.

We found the parcels owned by the municipal water systems located within the city limits or district boundaries to be assessed correctly. The parcels were exempted from taxation under article XIII, section 3(b) of the California Constitution. There were no parcels located outside an agency's boundaries.

Mutual Water Companies

A mutual water company is a private association created for the purpose of providing water at cost to its owners. If incorporated, those property owners served by the system hold shares of that company's stock. An incorporated mutual water company can enter into contracts, incur obligations, and own property. However, if unincorporated, it may perform those acts only in the names of all its members.

Mutual water company shares are typically appurtenant to the parcels that the company serves. In such cases, the value of the mutual water company assets is typically reflected in the assessed values of the properties it serves and to which the shares attach. However, if the ownership in a mutual water company is not appurtenant to the land, its land, improvements, and personal property must be assessed separately from those served parcels.

We were able to identify two mutual water companies in Nevada County. We found that the value of the mutual water company property was correctly reflected in the assessments of the lots served by the water system. The assessor applies the proper procedures when assessing mutual water company properties located within the county.

Private Water Companies

Private water companies, both regulated and unregulated, are utility companies that earn profits from the sale of water. The CPUC regulates the rates charged by private water companies, limiting profits to an authorized return on the companies' investment. The market values of the properties owned by regulated companies are tied directly to those rates. Rate regulation may result in the current market value of a water company's property being less than its factored base year value.

Nevada County has one private water company regulated by the CPUC and no unregulated private water companies. The assessor correctly values the property owned by this water company.

Pipeline Rights-of-Way

Intercounty pipeline rights-of-way were assessed by the BOE from approximately 1982 until 1993, when an appellate court ruled that such assessments were outside the BOE's constitutional authority.⁶ The court ruled that while the pipelines themselves are properly assessed by the BOE, the rights-of-way through which the pipelines run must be locally assessed. Subsequent to this court ruling, the Legislature added sections 401.8 through 401.12, governing the valuation of intercounty pipeline lands and rights-of-way.

When valuing the pipeline rights-of-way prior to the appellate court decision, the BOE developed "density classifications" for appraisal purposes. Assessors are generally using the BOE classifications. Should an assessor use different classifications or associated values, the assessor loses the benefit of a statutory presumption of correctness. Nevada County uses the three density classifications found in section 401.10(a)(3)(A). High density is valued at \$20,000 per mile, transitional density is valued at \$12,000 per mile, and low density is valued at \$9,000 per mile.

Nevada County has only one pipeline right-of-way assessment on the local roll with a total 2003-04 assessed value of \$406,094. The pipeline rights-of-way are from low to transitional density and are valued by one real property appraiser.

The assessor maintains a separate base year value for each separate right-of-way interest, but assesses the rights-of-way to a single countywide parcel according to section 401.8(a).

We checked the current roll values and confirmed that the values have been correctly factored from their 1989 base year. We found that the pipeline right-of-way in Nevada County is being valued in accordance with the provisions of sections 401.8 through 401.12.

⁶ *Southern Pacific Pipe Lines Inc. v. State Board of Equalization* (1993) 14 Cal.App.4th 42.

ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES

The assessor's program for assessing personal property and fixtures includes the following major elements:

- Discovery and classification of taxable personal property and fixtures.
- Mailing and processing of annual property statements and questionnaires.
- Annual revaluation of taxable personal property and fixtures.
- Auditing taxpayers whose assessments are based on information provided in property statements.

Annually, the business property staff processes about 2,300 business property statements, performs an estimated 25 audits, and assesses about 1,800 vessels and 540 aircraft. Excluding manufactured homes, the total value of personal property and fixtures on the 2003-04 assessment roll was approximately \$285 million.

Audit Program

A comprehensive audit program is essential to the successful administration of any tax program that relies on information supplied by taxpayers. A good audit program discourages deliberate underreporting, helps educate those property owners who unintentionally misreport, and provides the assessor with additional information to make fair and accurate assessments.

Mandatory Audits

Pursuant to section 469, audits are mandatory for taxpayers reporting business tangible personal property and trade fixtures valued at \$400,000 or more.

The assessor was without any auditor-appraisers for about three years before the current auditor-appraisers were added to the staff. Presently, the business property staff is composed of one full-time auditor-appraiser and one temporary part-time auditor-appraiser. Although the current audit staff has made great strides in their effort to bring the mandatory audit workload current, the assessor is still behind in completing his mandatory audits.

The following table shows the mandatory audit data completed over the last three years:

DESCRIPTION	2002-03	2001-02	2000-01
AUDITS SCHEDULED			
Carried Over	46	66	NA
Current Workload	26	8	66
Total Audit Workload	72	74	66
Audits Completed	27	26	0
Unfinished Audits	45	48	66
Mandatory Audits Carried Forward	21	46	66

RECOMMENDATION 4: Audit the books and records of professions, trades, or businesses pursuant to section 469.

We found that the assessor is behind on mandatory audit completion as shown in the table above. Section 469 provides that the assessor shall audit the books and records of professions, trades, or businesses with trade fixtures or business tangible personal property that has a full value of \$400,000 or more at least once each four years.

The mandatory audit program verifies the reporting of the largest business property accounts and forestalls any potential large assessment errors. The further removed the audit is from the year being audited, the more difficult it may be to obtain the necessary records to accurately audit the account.

Nonmandatory Audits

A nonmandatory audit program serves several purposes in the assessment of personal property. Besides helping to mitigate taxpayer reporting errors, a nonmandatory program also allows for the investigation and resolution of special problems uncovered during the processing of property statements.

The assessor performed only two non-mandatory audits for fiscal year 2002-03. Typically, staff selects nonmandatory audits based on their proximity to the mandatory audit threshold of \$400,000 in four consecutive years. The assessor wants to implement a larger nonmandatory program as soon as the mandatory audits become current, currently projected for year-end 2004.

Statute of Limitations

Section 532 provides that when the assessor discovers through an audit that property has escaped assessment, an assessment of such property must be enrolled within four years after July 1 of the assessment year during which the property escaped assessment. If the assessor cannot complete an audit within the prescribed time, the assessor may request, pursuant to section 532.1, a waiver of the statute of limitations from the taxpayer to extend the time for making an assessment.

We reviewed the files listed on the mandatory audit schedule. We found that all accounts currently approaching the statute of limitations either were scheduled for immediate action when an agreement to extend the statute of limitations was declined by the taxpayer or had a signed agreement to extend the statute of limitations as defined in section 532. We found no problems with this procedure.

Audit Quality

An audit should follow a standard format so that the auditor-appraiser may easily determine whether the property owner has correctly reported all taxable property. Audit narratives and summaries should include adequate documentation, full value calculations, reconciliation of the fixed assets totals to the general ledger and financial statements, review of asset invoices, reconciliation between reported and audit amounts, an analysis of expense accounts, and an analysis of depreciation and obsolescence factors that may affect the value of the business property.

We reviewed several audits and found working papers, cross-referencing, and audit lists detailing issues considered and records examined all to be in order and well documented.

Business Property Statement Program

Section 441 requires each person owning taxable personal property (other than a manufactured home) having an aggregate cost of \$100,000 or more to annually file a property statement with the assessor; other persons must file a property statement if requested by the assessor. Property statements form the backbone of the business property assessment program. Several variants of the property statement address a variety of property types, including commercial, industrial, agricultural, vessels, and certificated aircraft.

The staff processed statements for the 2003-04 roll year as shown in the table below:

CATEGORY	SECURED COUNT	UNSECURED COUNT	TOTAL COUNT
General Business	439	1,842	2,281
Agriculture	2	0	2
Apartments	25	17	42
Financial	7	37	44
Service Stations	8	33	41

The assessed value of the statements processed is illustrated in the following table:

CATEGORY	SECURED	UNSECURED	TOTAL
General Business	\$50,370,184	\$139,774,187	\$190,144,371
Agriculture	\$28,920	0	\$28,920
Apartments	\$935,485	\$6,101,97	\$7,055,082
Financial	\$736,824	\$3,345,624	\$4,082,448
Service Stations	\$2,432,686	\$3,726,733	\$6,159,419

RECOMMENDATION 5: Accept only completed business property statements.

We found that the assessor accepted incomplete business property statements where the "change of ownership" section of the business property statement was not completed or obvious assets, e.g., supplies, were not listed. This section contains questions that alert the assessor to possible changes in ownership, new leasehold improvements, remodeling, or a taxpayer's change in location.

Data submitted on the business property statement serves as the basis for the subsequent business property assessments. In addition, business property statements provide important information regarding changes in business ownership, location of the property, and the business start date at the current location.

Section 441 requires each person owning taxable personal property (other than manufactured homes) having an aggregate cost of \$100,000 or more to annually file a business property statement with the assessor; and any other person must file a property statement if requested by the assessor. Section 442 requires that the property statement shall show all taxable property owned, claimed, possessed, controlled, or managed by the person filing it and required to be reported thereon.

Discovery

The assessor has an efficient discovery program. Taxpayer self-reporting is the principal means of discovering assessable property. Other means of discovering assessable business property include reviewing business permits, fictitious business name filings, newspaper articles and advertisements, and telephone directories, referrals from other counties, and BOE notifications. We found that the assessor has effective methods for discovering business property.

Direct Billing

Many California assessors utilize an assessment procedure called direct billing or direct assessment. It is a method of assessing qualified lower-value business accounts without the annual filing of a business property statement. The assessor establishes an initial value and continues it for several years. Property statement filings or field reviews are required periodically. Examples of businesses suitable for direct billing include apartments, barber shops, beauty parlors, coin-operated laundrettes, small cafes and restaurants, and professional firms with small equipment holdings. The direct billing program is beneficial to the taxpayer and the assessor. It results in a reduction of paperwork for taxpayers and fewer business property statements that must be processed annually by the assessor's staff, increasing time available for the auditor-appraisers to perform other required duties.

The Nevada County Assessor utilizes such a program. The accounts that are direct-billed are generally stable and less than \$100,000 in full cash value of reportable business property. Every four years the assessor's office sends a business property statement to direct billed taxpayers to determine if there have been any substantial changes of business property including increases or decreases in equipment, changes in ownership, or changes in location. The assessor then decides whether the account is still suitable for direct billing. If not, he converts the account back to a regular account and resumes yearly business property statement mailings.

There are currently 984 accounts in the Nevada County "Direct Bill" program. The direct billing program is a well-administered program.

Business Equipment Valuation

Commercial, Industrial, and Agricultural Equipment

Assessors value most machinery and equipment using business property value factors. Value factors are derived by combining price index factors (trend factors) with percent-good factors. A value indicator is obtained by multiplying a property's historical (acquisition) cost by an appropriate value factor.

Section 401.5 provides that the BOE shall issue information that promotes uniformity in appraisal practices and assessed values. Pursuant to that mandate, the BOE annually publishes Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors* (AH 581).

The assessor uses the California Assessor's Association (CAA) tables and combines the equipment index factor and the percent good factor into one factor (valuation factor). These valuation factors are integrated into the assessor's computer system. The index and percent good factors conform to those in the AH 581 with the following exception.

RECOMMENDATION 6: Use the Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors*, as intended.

The assessor uses minimum valuation factors in the valuation of older machinery and equipment without market data to support the practice. Beginning with the 2003 lien date, assessors are prohibited from employing minimum percent good factors that are determined in an unsupported manner. The CAA tables recommend using factors for an age equal to 125 percent of estimated service life as the minimum percent good factor. The assessor has no supporting evidence for using such minimum factors; hence, the manner is not supportable as required by section 401.16.

Computer Valuation

In order to promote uniformity in appraisal practices and assessed values and to comply with the requirements of section 401.5, the BOE issued in AH 581, Table 6: Computer Valuation Factors, valuation factors for valuing computers.

We found that the assessor has adopted the BOE factors and uses them in valuing computer equipment as recommended in our prior survey.

Classification

Machinery and equipment must be classified as either personal property or fixtures (improvements) depending on whether the item is physically or constructively annexed to real property with the intent, as evidenced by outward appearance, that the item will remain annexed indefinitely.

We found no problems either in the processing of the statements or the classification of machinery and equipment.

Leased Equipment

The business property division is responsible for the discovery, valuation, and assessment of leased equipment. This type of property is one of the more difficult to assess correctly. Common problems include difficulty in establishing taxability and taxable situs, reporting errors by lessees and lessors, valuation (whether the value of the equipment should be the lessor's cost or the cost for the consumer to purchase), and double or escape assessments resulting from lessor and lessee reporting. These issues are discussed in detail in Assessors' Handbook Section 504, *Assessment of Personal Property and Fixtures*.

When property is leased, both lessors and lessees should report such property on their annual property statements. At the end of such a lease, the lessee may acquire the equipment or return it to the lessor. Procedures should be in place to identify the disposition of leased equipment upon termination of a lease.

When a lessee obtains ownership and retains possession of equipment at the end of the lease, the assessor should confirm that the lessee reports the property. A cross-check of information reported by lessors and lessees verifies the accuracy of the reported information. We found that the leased equipment program is well managed with staff doing an excellent job in discovering, processing, tracking, and assessing leased equipment.

Aircraft

General Aircraft

General aircraft are privately owned aircraft that are used for pleasure or business but that are not authorized to carry passengers, mail, or freight on a commercial basis (general aircraft contrast with certificated aircraft, discussed below). Section 5363 requires the assessor to determine the market value of all aircraft according to standards and guidelines prescribed by the BOE. Section 5364 requires the BOE to establish such standards. On January 10, 1997, the BOE approved the *Aircraft Bluebook-Price Digest (Bluebook)* as the primary guide for valuing aircraft, with the *Vref Aircraft Value Reference (Vref)* as an alternative guide for aircraft not listed in the *Bluebook*.

Nevada County assessed 222 general aircraft with an assessed value of about \$13,700,000 for the 2003-04 assessment roll. We reviewed several samples and noted that staff used the *Bluebook* and the recommended adjustments in valuing general aircraft. The assessor discovers aircraft through operators' tenant lists, county referrals, Federal Aviation Administration reports, and physical inspections.

We found the aircraft assessment program to be in proper order.

Historical Aircraft

Aircraft of historical significance are exempt from taxation upon meeting certain requirements. Section 220.5 defines "aircraft of historical significance" as any aircraft which is an original, restored, or replica of a heavier than air powered aircraft which is 35 years or older, or any aircraft of a type or model of which there are fewer than five in number known to exist worldwide.

The historical aircraft exemption is not automatic. The owner of a historical aircraft must submit an affidavit on or before 5:00 p.m., February 15, and pay a filing fee of thirty-five dollars (\$35) upon the initial application for exemption. Along with these requirements, aircraft of historical significance are exempt only if the following conditions are met: (1) the assessee is an individual owner who does not hold the aircraft primarily for purposes of sale; (2) the assessee does not use the aircraft for commercial purposes or general transportation; and, (3) the aircraft was available for display to the public at least 12 days during the 12-month period immediately preceding the lien date for the year for which exemption is claimed.

The assessor granted approximately 17 historical aircraft exemptions for the 2003-04 assessment roll. The assessor has an effective historical aircraft assessment program.

Vessels

The assessor discovers vessels through field canvassing, referrals from other counties, and reports obtained from the Department of Motor Vehicles and marinas.

The following table shows the assessor's vessel data for the last five years:

ROLL YEAR	PLEASURE VESSELS	
	NUMBER	ASSESSED VALUE
2003-04	1,903	\$24,477,444
2002-03	1,762	\$22,223,407
2001-02	1,623	\$19,803,312
2000-01	1,476	\$17,361,557
1999-00	1,391	\$15,851,728

The assessor mainly uses the National Automobile Dealer Association's *Marine Appraisal Guide* (N.A.D.A.) to value vessels. In certain instances, other sources may be used, such as internet resources and local manufacturer sales. If the reported purchase price falls within the value range indicated by N.A.D.A., the purchase price is enrolled as the taxable value; otherwise the taxable value is based on the indicated value from the N.A.D.A. guide. Sales tax is correctly added to the value determined from the value guides. Subsequent assessments are made to each vessel annually and based on the current value from N.A.D.A.

We found that the assessor has an effective vessel assessment program.

Manufactured Homes

A "manufactured home" is defined in Health and Safety Code sections 18007 and 18008, and statutes prescribing the method of assessing manufactured homes are contained in sections 5800 through 5842. A manufactured home is subject to local property taxation if sold new on or after July 1, 1980, or if its owner requests conversion from the vehicle license fee to local property taxation. Manufactured homes should be classified as personal property and enrolled on the secured roll.

In determining the full cash value of a manufactured home on rented or leased land, the assessor, pursuant to section 5803, must take into consideration sales prices listed in recognized value guides for manufactured homes. Recognized value guides include, but are not limited to, the *Kelley Blue Book Manufactured Housing Used Value Guide* (Blue Book), the National Automobile Dealer Association's *Manufactured Housing Appraisal Guide* (N.A.D.A.), and the BOE's unit cost factors for manufactured homes.

For the 2003-04 roll, there were 2,437 manufactured homes in Nevada County with an assessed value of \$231,868,553. Approximately 739 or 30 percent of these manufactured homes are located in 29 mobilehome parks. The rest of the homes were located primarily on rural sites. Since the 1999-00 assessment roll, the number of manufactured homes on the assessment roll has increased about 16 percent.

The following table illustrates the manufactured home statistics over the last five years:

ASSESSMENT ROLL	NUMBER ASSESSED	ASSESSED VALUE
2003-04	2,437	\$231,868,553
2002-03	2,358	\$206,492,949
2001-02	2,267	\$186,163,265
2000-01	2,183	\$168,970,472
1999-00	2,105	\$155,106,525

In Nevada County, the real property appraiser assigned to the geographical area in which the home is located values the manufactured home. The assessor learns of sales, new installations, and voluntary conversions of manufactured homes through periodic Department of Housing and Community Development (HCD) listings, building permits, park reporting, and dealer's reports of sale. N.A.D.A., local cost data, and BOE unit cost factors are considered during the valuation analysis. Thereafter, values are tested annually for the lower of full cash value or factored base year value. When applicable, supplemental assessments are processed.

We found the manufactured home records are organized for easy access and contain timely assessment information. However, there is one area that should be improved.

RECOMMENDATION 7: Classify and enroll manufactured homes as personal property.

We found that the assessor enrolls manufactured homes as real property improvements. Section 5801(b)(2) provides that manufactured homes shall not be classified as real property. This requirement is explained in detail in LTA No. 92/57 and in Assessors' Handbook Section 511, *Assessment of Manufactured Homes and Parks*.

This procedure may result in improper tax consequences and inconsistencies in the proper application of the Soldiers' and Sailors' Civil Relief Act of 1940; however, we found none in our investigation.

APPENDICES

A. County Property Tax Division Survey Group

Nevada County

Chief, County Property Tax Division

Mickie Stuckey

Survey Program Director:

Benjamin Tang

Principal Property Appraiser

Survey Team Supervisor:

Arnold Fong

Supervising Property Appraiser

Survey Team Leader:

Carlos Zaragoza

Senior Specialist Property Appraiser

Survey Team:

Robert Donay

Associate Property Appraiser

Robert Rossi

Associate Property Appraiser

Lloyd Allred

Associate Property Auditor-Appraiser

Ancil Aydelott

Associate Property Auditor-Appraiser

Pamela Bowens

Associate Property Auditor-Appraiser

Marilyn Jones

Tax Technician II

B. Relevant Statutes and Regulations

Government Code

15640. Survey by board of county assessment procedures.

- (a) The State Board of Equalization shall make surveys in each county and city and county to determine the adequacy of the procedures and practices employed by the county assessor in the valuation of property for the purposes of taxation and in the performance generally of the duties enjoined upon him or her.
- (b) The surveys shall include a review of the practices of the assessor with respect to uniformity of treatment of all classes of property to ensure that all classes are treated equitably, and that no class receives a systematic overvaluation or undervaluation as compared to other classes of property in the county or city and county.
- (c) The surveys may include a sampling of assessments from the local assessment rolls. Any sampling conducted pursuant to subdivision (b) of Section 15643 shall be sufficient in size and dispersion to insure an adequate representation therein of the several classes of property throughout the county.
- (d) In addition, the board may periodically conduct statewide surveys limited in scope to specific topics, issues, or problems requiring immediate attention.
- (e) The board's duly authorized representatives shall, for purposes of these surveys, have access to, and may make copies of, all records, public or otherwise, maintained in the office of any county assessor.
- (f) The board shall develop procedures to carry out its duties under this section after consultation with the California Assessors' Association. The board shall also provide a right to each county assessor to appeal to the board appraisals made within his or her county where differences have not been resolved before completion of a field review and shall adopt procedures to implement the appeal process.

15641. Audit of Records; Appraisal Data Not Public.

In order to verify the information furnished to the assessor of the county, the board may audit the original books of account, wherever located; of any person owning, claiming, possessing or controlling property included in a survey conducted pursuant to this chapter when the property is of a type for which accounting records are useful sources of appraisal data.

No appraisal data relating to individual properties obtained for the purposes of any survey under this chapter shall be made public, and no state or local officer or employee thereof gaining knowledge thereof in any action taken under this chapter shall make any disclosure with respect thereto except as that may be required for the purposes of this chapter. Except as specifically provided herein, any appraisal data may be disclosed by the board to any assessor, or by the board or the assessor to the assessee of the property to which the data relate.

The board shall permit an assessee of property to inspect, at the appropriate office of the board, any information and records relating to an appraisal of his or her property, including "market data" as defined in Section 408. However, no information or records, other than "market data," which relate to the property or business affairs of a person other than the assessee shall be disclosed.

Nothing in this section shall be construed as preventing examination of that data by law enforcement agencies, grand juries, boards of supervisors, or their duly authorized agents, employees, or representatives conducting an investigation of an assessor's office pursuant to Section 25303, and other duly authorized legislative or administrative bodies of the state pursuant to their authorization to examine that data.

15642. Research by board employees.

The board shall send members of its staff to the several counties and cities and counties of the state for the purpose of conducting that research it deems essential for the completion of a survey report pursuant to Section 15640 with respect to each county and city and county. The survey report shall show the volume of assessing work to be done as measured by the various types of property to be assessed and the number of individual assessments to be made, the responsibilities devolving upon the county assessor, and the extent to which assessment practices are consistent with or differ from state law and regulations. The report may also show the county assessor's requirements for maps, records, and other equipment and supplies essential to the adequate performance of his or her duties, the number and classification of personnel needed by him or her for the adequate conduct of his or her office, and the fiscal outlay required to secure for that office sufficient funds to ensure the proper performance of its duties.

15643. When surveys to be made.

(a) The board shall proceed with the surveys of the assessment procedures and practices in the several counties and cities and counties as rapidly as feasible, and shall repeat or supplement each survey at least once in five years.

(b) The surveys of the 10 largest counties and cities and counties shall include a sampling of assessments on the local assessment rolls as described in Section 15640. In addition, the board shall each year, in accordance with procedures established by the board by regulation, select at random at least three of the remaining counties or cities and counties, and conduct a sample of assessments on the local assessment roll in those counties. If the board finds that a county or city and county has "significant assessment problems," as provided in Section 75.60 of the Revenue and Taxation Code, a sample of assessments will be conducted in that county or city and county in lieu of a county or city and county selected at random. The 10 largest counties and cities and counties shall be determined based upon the total value of locally assessed property located in the counties and cities and counties on the lien date that falls within the calendar year of 1995 and every fifth calendar year thereafter.

(c) The statewide surveys which are limited in scope to specific topics, issues, or problems may be conducted whenever the board determines that a need exists to conduct a survey.

(d) When requested by the legislative body or the assessor of any county or city and county to perform a survey not otherwise scheduled, the board may enter into a contract with the requesting local agency to conduct that survey. The contract may provide for a board sampling of assessments on the local roll. The amount of the contracts shall not be less than the cost to the board, and shall be subject to regulations approved by the Director of General Services.

15644. Recommendations by board.

The surveys shall incorporate reviews of existing assessment procedures and practices as well as recommendations for their improvement in conformity with the information developed in the surveys as to what is required to afford the most efficient assessment of property for tax purposes in the counties or cities and counties concerned.

15645. Survey report; final survey report; assessor's report.

(a) Upon completion of a survey of the procedures and practices of a county assessor, the board shall prepare a written survey report setting forth its findings and recommendations and transmit a copy to the

assessor. In addition the board may file with the assessor a confidential report containing matters relating to personnel. Before preparing its written survey report, the board shall meet with the assessor to discuss and confer on those matters which may be included in the written survey report.

(b) Within 30 days after receiving a copy of the survey report, the assessor may file with the board a written response to the findings and recommendations in the survey report. The board may, for good cause, extend the period for filing the response.

(c) The survey report, together with the assessor's response, if any, and the board's comments, if any, shall constitute the final survey report. The final survey report shall be issued by the board within two years after the date the board began the survey. Within a year after receiving a copy of the final survey report, and annually thereafter, no later than the date on which the initial report was issued by the board and until all issues are resolved, the assessor shall file with the board of supervisors a report, indicating the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations of the survey report, with copies of that response being sent to the Governor, the Attorney General, the State Board of Equalization, the Senate and Assembly and to the grand juries and assessment appeals boards of the counties to which they relate.

15646. Copies of final survey reports to be filed with local officials.

Copies of final survey reports shall be filed with the Governor, Attorney General, and with the assessors, the boards of supervisors, the grand juries and assessment appeals boards of the counties to which they relate, and to other assessors of the counties unless one of these assessors notifies the State Board of Equalization to the contrary and, on the opening day of each regular session, with the Senate and Assembly.

Revenue and Taxation Code**75.60. Allocation for administration.**

(a) Notwithstanding any other provision of law, the board of supervisors of an eligible county or city and county, upon the adoption of a method identifying the actual administrative costs associated with the supplemental assessment roll, may direct the county auditor to allocate to the county or city and county, prior to the allocation of property tax revenues pursuant to Chapter 6(commencing with Section 95) and prior to the allocation made pursuant to Section 75.70, an amount equal to the actual administrative costs, but not to exceed 5 percent of the revenues that have been collected on or after January 1, 1987, due to the assessments under this chapter. Those revenues shall be used solely for the purpose of administration of this chapter, regardless of the date those costs are incurred.

(b) For purposes of this section:

- (1) "Actual administrative costs" includes only those direct costs for administration, data processing, collection, and appeal that are incurred by county auditors, assessors, and tax collectors. "Actual administrative costs" also includes those indirect costs for administration, data processing, collections, and appeal that are incurred by county auditors, assessors, and tax collectors and are allowed by state and federal audit standards pursuant to the A-87 Cost Allocation Program.
- (2) "Eligible county or city and county" means a county or city and county that has been certified by the State Board of Equalization as an eligible county or city and county. The State Board of Equalization shall certify a county or city and county as an eligible county or city and county only if both of the following are determined to exist:
 - (A) The average assessment level in the county or city and county is at least 95 percent of the assessment level required by statute, as determined by the board's most recent survey of that county or city and county performed pursuant to Section 15640 of the Government Code.
 - (B) For any survey of a county assessment roll for the 1996-97 fiscal year and each fiscal year thereafter, the sum of the absolute values of the differences from the statutorily required assessment level described in subparagraph (A) does not exceed 7.5 percent of the total amount of the county's or city and county's statutorily required assessed value, as determined pursuant to the board's survey described in subparagraph (A).
- (3) Each certification of a county or city and county shall be valid only until the next survey made by the board. If a county or city and county has been certified following a survey that includes a sampling of assessments, the board may continue to certify that county or city and county following a survey that does not include sampling if the board finds in the survey conducted without sampling that there are no significant assessment problems in the county or city and county. The board shall, by regulation, define "significant assessment problems" for purposes of this section, and that definition shall include objective standards to measure performance. If the board finds in the survey conducted without sampling that significant assessment problems exist, the board shall conduct a sampling of assessments in that county or city and county to determine if it is an eligible county or city and county. If a county or city and county is not certified by the board, it may request a new survey in advance of the regularly scheduled survey, provided that it agrees to pay for the cost of the survey.

Title 18, California Code of Regulations

Rule 370. Random selection of counties for representative sampling.

(a) SURVEY CYCLE. The board shall select at random at least three counties from among all except the 10 largest counties and cities and counties for a representative sampling of assessments in accordance with the procedures contained herein. Counties eligible for random selection will be distributed as equally as possible in a five-year rotation commencing with the local assessment roll for the 1997–98 fiscal year.

(b) RANDOM SELECTION FOR ASSESSMENT SAMPLING. The three counties selected at random will be drawn from the group of counties scheduled in that year for surveys of assessment practices. The scheduled counties will be ranked according to the size of their local assessment rolls for the year prior to the sampling.

- (1) If no county has been selected for an assessment sampling on the basis of significant assessment problems as provided in subdivision (c), the counties eligible in that year for random selection will be divided into three groups (small, medium, and large), such that each county has an equal chance of being selected. One county will be selected at random by the board from each of these groups. The board may randomly select an additional county or counties to be included in any survey cycle year. The selection will be done by lot, with a representative of the California Assessors' Association witnessing the selection process.
- (2) If one or more counties are scheduled for an assessment sampling in that year because they were found to have significant assessment problems, the counties eligible for random selection will be divided into the same number of groups as there are counties to be randomly selected, such that each county has an equal chance of being selected. For example, if one county is to be sampled because it was found to have significant assessment problems, only two counties will then be randomly selected and the pool of eligible counties will be divided into two groups. If two counties are to be sampled because they were found to have significant assessment problems, only one county will be randomly selected and all counties eligible in that year for random selection will be pooled into one group.
- (3) Once random selection has been made, neither the counties selected for an assessment sampling nor the remaining counties in the group for that fiscal year shall again become eligible for random selection until the next fiscal year in which such counties are scheduled for an assessment practices survey, as determined by the five-year rotation. At that time, both the counties selected and the remaining counties in that group shall again be eligible for random selection.

(c) ASSESSMENT SAMPLING OF COUNTIES WITH SIGNIFICANT ASSESSMENT PROBLEMS. If the board finds during the course of an assessment practices survey that a county has significant assessment problems as defined in Rule 371, the board shall conduct a sampling of assessments in that county in lieu of conducting a sampling in a county selected at random.

(d) ADDITIONAL SURVEYS. This regulation shall not be construed to prohibit the Board from conducting additional surveys, samples, or other investigations of any county assessor's office.

Rule 371. Significant assessment problems.

(a) For purposes of Revenue and Taxation Code Section 75.60 and Government Code Section 15643, "significant assessment problems" means procedure(s) in one or more areas of an assessor's assessment

operation, which alone or in combination, have been found by the Board to indicate a reasonable probability that either:

- (1) the average assessment level in the county is less than 95 percent of the assessment level required by statute; or
 - (2) the sum of all the differences between the board's appraisals and the assessor's values (without regard to whether the differences are underassessments or overassessments), expanded statistically over the assessor's entire roll, exceeds 7.5 percent of the assessment level required by statute.
- (b) For purposes of this regulation, "areas of an assessor's assessment operation" means, but is not limited to, an assessor's programs for:
- (1) Uniformity of treatment for all classes of property.
 - (2) Discovering and assessing newly constructed property.
 - (3) Discovering and assessing real property that has undergone a change in ownership.
 - (4) Conducting mandatory audits in accordance with Revenue and Taxation Code Section 469 and Property Tax Rule 192.
 - (5) Assessing open-space land subject to enforceable restriction, in accordance with Revenue and Taxation Code Sections 421 et. seq.
 - (6) Discovering and assessing taxable possessory interests in accordance with Revenue and Taxation Code Sections 107 et. seq.
 - (7) Discovering and assessing mineral-producing properties in accordance with Property Tax Rule 469.
 - (8) Discovering and assessing property that has suffered a decline in value.
 - (9) Reviewing, adjusting, and, if appropriate, defending assessments for which taxpayers have filed applications for reduction with the local assessment appeals board.
- (c) A finding of "significant assessment problems," as defined in this regulation, would be limited to the purposes of Revenue and Taxation Code Section 75.60 and Government Code Section 15643, and shall not be construed as a generalized conclusion about an assessor's practices.

ASSESSOR'S RESPONSE TO BOE'S FINDINGS

Section 15645 of the Government Code provides that the assessor may file with the BOE a response to the findings and recommendation in the survey report. The survey report, the assessor's response, and the BOE's comments on the assessor's response, if any, constitute the final survey report.

The Nevada County Assessor's response begins on the next page. The BOE has no comments on the response.

COUNTY OF NEVADA

DALE F. FLIPPIN

ASSESSOR

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Nevada City, CA 95959-8600
(530) 265-1232
FAX 265-9858

June 6, 2005

Mickie Stuckey, Chief
County Property Tax Division
State Board of Equalization
P.O. Box 942879
Sacramento, CA 94279-0062

Subject: Nevada County Assessment Practices Survey Response

Dear Ms. Stuckey,

Enclosed is my response to the recommendations in the *Nevada County Assessment Practices Survey Report* (2005). This response is prepared and submitted in accordance with California Government Code Section 15645.

I wish to express my appreciation to the survey team, under the leadership of Mr. Arnold Fong and Mr. Carlos Zaragoza, for the professional and courteous manner in which they performed their duties. They took care not interrupt our normal operations any more than necessary and were quite flexible in scheduling meetings with staff when necessary.

Our staff members who were called upon to attend topic meetings, or to answer specific questions, report that they were pleased with the opportunity to interact with the survey team and to discuss the various assessment issues. We welcomed the open dialog that occurred and were pleased with the survey team's interest in our processes and our views. We found several instances where problems were noted by the team which we were able to correct before the team completed the audit. The open conversation and learning experience were valuable to our staff and our overall operation. On behalf of my staff, I thank the team members for their input and congeniality.

I would like to give special thanks to my entire staff for their professionalism and dedication. As noted in the survey, we have made significant improvements since the 2000 survey. Since my appointment, we have planned and implemented numerous changes designed to streamline office procedures and to correct known problems. We could not have succeeded in these changes without the hard work and support of the entire staff.

Sincerely,



Dale F. Flippin
Assessor, County of Nevada

Nevada County Assessment Practices Survey Response

RECOMMENDATION 1:

Revise form administrative procedures by: (1) including the penalty language only on appropriate forms; (2) transmitting non-prescribed forms and questionnaires in such a manner that it does not imply that the section 463 penalty applies; (3) using only BOE-approved rearranged forms; and (4) prominently displaying the required heading on the notice of proposed escape assessment.

Response:

We are currently reviewing our internal forms and correspondence and reformatting them to remove inappropriate penalty language. We are modifying our procedures to transmit our non-prescribed forms and questionnaires without implying that a penalty will apply for not completing them. We have added the required heading on the notice of proposed escape assessment.

We have changed our form requirements so that we now only use two rearranged forms. We have modified our rearranged BOE-266-CD form so that it is in compliance and it has been approved by BOE. We have not received BOE approval for two other rearranged forms and feel that the Board's reasoning for denial was unreasonable.

On our 571-L form, we added field labels at the beginning of "account number" and the addressing fields. We feel that this information is useful to the tax payer and in no way changes the meaning or intent of the form. Our other rearranged form (BOE-502-AH) removed labels for information our computer system is unable to extract ("legal description" and "Seller/Transferor"). In order to assist the tax payer in identifying a parcel without a legal description, we substitute an "acres" field. We believe the intent of the "legal description" is to help the tax payer identify the parcel of interest and have provided the best substitute our system is able to extract.

RECOMMENDATION 2:

Notify the auditor-controller when penalties or interest should be added to an escape assessment.

Response:

We have implemented procedural and computer system changes which have resolved the penalties notification issue. We have verified with the auditor-controller that they are now receiving the penalty notification and are properly adding the penalty amount.

RECOMMENDATION 3:

Revise the possessory interest procedures by: (1) supplementally assessing all qualifying possessory interests; (2) reappraising month-to-month possessory interests only at the expiration of the anticipated term of possession; and, (3) periodically reviewing all taxable possessory interests with stated terms of possession for declines in value as required by section 51.

Response:

We are currently in the process of refining our possessory interest procedures and tracking methods. We are currently adhering to recommendation (2) for the majority of possessory interests and, over time, will be implementing this review process for the remainder of month-to-month PI's. A component of refining our possessory interest procedures will be implementing a schedule for (3) reviewing PI's, by property type, on a periodic basis.

Recommendation (3) however, infers section 51 has a requirement for periodic review of properties, when in fact the opposite is true. Our implementation of a review process, although consistent with Board recommendation, will be implemented as a reasonable business practice, as warranted by the specific property type, not lack of codified compliance.

RECOMMENDATION 4:

Audit the books and records of professions, trades, or businesses pursuant to section 469.

Response:

At the time of the survey, we did have a backlog of mandatory audits. As of the close of roll in June 2004, we had cleared the backlog and are now on schedule for mandatory audits.

RECOMMENDATION 5:

Accept only completed business property statements.

Response:

The reality is that the majority of business property statements (BPS) are returned incomplete, or inaccurate, to some degree. The intent of the BPS is to gather sufficient data to make a reasonably informed assessment of value. In most cases, we have a history of the business and previous assessments and are able to use this information in

interpreting the BPS. We have also developed a number of internal procedures for obtaining missing information. We do direct calls to the business owner, send letters and questionnaires, ask for information to be submitted via FAX or email, and make site visits. We may even do a field audit if the situation warrants it.

We feel that our procedures provide sufficient checks to obtain good information in order to determine value. We feel that it would take an inordinate amount of time returning incomplete forms, then waiting for the business owner to re-file the BPS. With a limited amount of time to process business property statements in order to close the roll, we feel rejecting incomplete forms could seriously impact our ability to complete the roll on time. We will continue to accept most BPS as filed, and then use our internal processes to evaluate them and gather additional information as required.

RECOMMENDATION 6:

Use the Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors*, as intended.

Response:

This office uses and supports the minimum percent good factors developed by the California Assessor's Association Business Property Subcommittee. These factors have been established by auditor-appraisers throughout the state using the data and judgment derived from numerous audits and many years of experience. We believe that this provides substantial supporting evidence for the use of these factors (as required by R&T section 401.16 (b)), contrary to the Survey assertion that they "are determined in an unsupported manner".

When property owners are able to present valid evidence of values that differ from these factors, we do consider that evidence in our valuation. If we agree with the property owner's values, we will make appropriate changes to the assessment value.

We will continue to utilize the CAA minimum percent good factors and support the CAA in improving and maintaining the system for updating the factors. We encourage the BOE to work with the CAA to improve the process of updating these factors and to adopt the recommendations of the CAA on this issue.

RECOMMENDATION 7:

Classify and enroll manufactured homes as personal property.

Response:

The Nevada County property tax system database was written in-house and designed to handle manufactured homes on the real property side of the system. Changing this program would involve a great deal of time and would be a very expensive change to implement. This portion of the database is not well documented and has a number of related processes. Attempting a re-write of this system could generate numerous unintended results and could potentially cause major system problems. We feel that making these types of changes would be too expensive and too dangerous to our database.

We do internally treat and process manufactured homes as personal property. We are aware of the potential for improper taxation application under the Soldiers' and Sailors' Civil Relief Act of 1940 and do monitor to see that this rare event does not occur.

Further, in our property tax system, the only automated method of allowing the manufactured home owner to make two tax payments, like owners of site-built real property, is to process them through the real property system. Since we do have major programming issues involved and related high cost to change the program, we will continue to process manufactured homes as we do now, being careful to not improperly tax property owners.